Atlantic Pilotage Authority ANNUAL REPORT 2014

Atlantic Pilotage Authority | Administration de pilotage de l'Atlantique

Canada

2014 EXECUTIVE & MANAGEMENT

Back row, left to right: Brian Bradley, MBA, CGA, Controller; John Griffin, MBA, Pilotage Operations Manager; Elaine Selig, Executive Assistant; Captain Sean Griffiths, MBA, Chief Operating Officer. *Front row, left to right:* Brent Carroll, Pilot Boat Administrator; Peter MacArthur, CMA, Chief Financial Officer; Captain Anthony McGuinness, Chief Executive Officer; Jennifer Holland, Human Resources Manager

2014 BOARD OF DIRECTORS

Captain Edward Anthony, Pilotage Representative, St. John's, NL

Alisa Aymar, CGA, Public Sector Representative, Meteghan River, NS

Brian Ritchie, Shipping Industry Representative, Shediac Cape, NB

Captain Alexander MacIntyre, Pilotage Representative, Head of St. Margaret's Bay, NS

William Rooney, Public Sector Representative & Vice Chair, Hunter River, PE

Jim Stoneman, Shipping Industry Representative, Windsor Junction, NS

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Mandate

The mandate of the Atlantic Pilotage Authority is to establish, operate, maintain and administer, in the interest of safety, an efficient pilotage service in the Atlantic region.

Mission

The Authority will accomplish its mandate by providing the necessary expertise and experience, associated with the appropriate technology, to meet the needs of industry. The Authority is committed to maximizing the use of its resources/assets to meet the goals in a safe and environmentally responsible manner.

Vision

To continue to provide an effective pilotage service throughout the Atlantic region. In doing so, the Authority would maximize opportunities and benefit the various ports/districts and surrounding communities.

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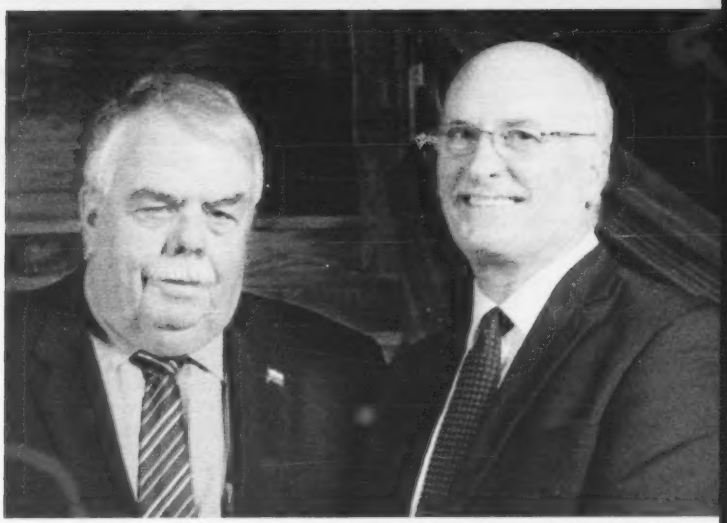
CORPORATE HEADQUARTERS

Atlantic Pilotage Authority
Cogswell Tower, Suite 910,
2000 Barrington Street, Halifax, NS B3J 3K1
tel. 902.426.2550 fax. 902.426.4004
www.atlanticpilotage.com

LETTER FROM THE VICE-CHAIR & CEO



William Rooney, Vice-Chair and Captain Anthony McGuinness, Chief Executive Officer

March 11, 2015

The Honourable Lisa Raitt
Minister of Transport
Tower C – 330 Sparks Street
Ottawa, ON
K1A 0N5

Dear Madam:

Pursuant to Section 150 of the *Financial Administration Act*, it is our pleasure to present the Atlantic Pilotage Authority's Annual Report for 2014.

Pilotage assignments for the year increased by 1.7% from 2013, and pilotage revenue increased by 6.4%. Despite these good results, the Authority had a loss for the year as expenses increased by 7.9%. Pilot salary costs increased due to the hiring of additional pilots and an increase in recall assignments due to illness and injury among pilots being much higher than usual. The Authority faced increased costs in other areas, including pilot boat repairs and pilot boat fuel costs.

Safety is paramount to the Authority, and we are pleased to report that the Authority has completed 99.94% of its assignments during 2014 without a reported shipping incident.

The Authority has set a key performance indicator of providing pilotage service within one hour of the confirmed ordered time on 99% of its assignments. Though this benchmark was achieved in the majority of the areas, the overall result was 98.6%, just short of our benchmark. Service deficiencies have been identified and the Authority is working diligently to improve its results.

As outlined last year, the Authority continues its high level risk analysis of commercial ports throughout the Atlantic Region. Where preliminary reviews indicate potential significant risk, the Authority conducts Pilotage Risk Management Methodology (PRMM) reviews. Recommendations from PRMMs of several ports and areas in Newfoundland were received in 2014, and the Board agreed with the recommendations that no change in status take place in those areas. A PRMM commenced in late 2014 for the Placentia Bay area to provide a recommendation on whether it is prudent to reinstate an additional inner pilot boarding station for ships in ballast.

The Authority currently has a recommendation that the Port of Belledune, NB become a compulsory pilotage area. During the regulatory process, several objections to this recommendation were submitted in December 2013 and an investigator is to be appointed to review the Authority's recommendation and stakeholder concerns.

Management's regular consultations with its Atlantic Region stakeholders continues to provide vital input on the service levels, operational issues, and pilotage tariffs within each of its major ports. These stakeholder meetings provide open dialogue with customers, and allows the management of the Authority to keep its finger on the pulse of developments in its region.

Through these beneficial forums, and also taking into consideration pending pilot retirements and long term-sickness, the Authority re-evaluated its pilot numbers throughout the regions. A number of additional new pilots were hired so as to ensure the continuation of a safe, efficient, and timely pilotage service at a fair and reasonable cost.

Along with overseeing the strategic direction of the Authority, the Board Members of the Authority continue to actively participate in establishing effective corporate governance practices. Along with management, they focus on risk management and continue to diligently maintain oversight of financial and operational control. The Board and management are pleased to see the appointments of the new Chair, L. Anne Galbraith, and the new Vice-Chair, Patricia Mella, and look forward to working with them both for the foreseeable future.

It is once again our pleasure to report that the Atlantic Pilotage Authority continues to provide an exemplary service, in the safest and most economical manner, to the satisfaction of its users, and within the obligation of the *Pilotage Act*.

Respectfully submitted,

Anthony McGuinness
Chief Executive Officer

William Rooney
Vice-Chair

YEAR IN REVIEW 2014

Strategic Direction

The Board has identified six strategic areas as priorities for the Authority. The six areas of focus are as follows:

- *Governance*
- *Safety of Environment*
- *Quality of Service*
- *Financial Self-Sufficiency*
- *Technology*
- *Human Resources*

Governance

The Atlantic Pilotage Authority is one of four Authorities established in 1972 pursuant to the *Pilotage Act*. Under section 18 of the Act, the Authority was mandated "to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within the region".

The Authority is composed of a Chair, and not more than six members, referred to herein as the Board of Directors. The present Board structure consists of two shipping industry representatives, two public sector representatives, and two representatives with marine pilotage experience. This representation provides an excellent cross section of marine knowledge, shipping perspective, and business acumen. The Board is appointed by the Governor in Council, and is accountable to the Minister of Transport. The Board has a very active committee structure, and new Board Members are provided with an orientation to the Authority, and training in Corporate Governance upon appointment. Through this process, the Board has built an effective structure for overseeing the direction and management of the Authority so that it effectively fulfills its mandate. Policies regarding the stewardship of the Authority and the functioning of the Board are under continual review, and where necessary, changes are implemented.

Management and the Board conducts a strategic planning initiative each year that provides a longer planning horizon than contemplated in the five year Corporate Plan process. The Authority reviews and updates this plan each year.

Safety of Environment

The Authority continues to monitor and assess all areas within its mandate to determine any change in factors and circumstances that may have an impact on safety. If such a change is determined to warrant closer review, the Authority will employ an outside facilitator to conduct a Pilotage Risk Management Methodology (PRMM). The PRMM, developed jointly by the pilotage authorities and Transport Canada, uses a proven risk management methodology to assess the circumstances in the area. The PRMM has been used in an effective manner by the Authority on several occasions in the past to determine inherent risks in changing conditions. In March 2012 the Board approved the PRMM Facilitator's recommendation to make the port of Belledune, NB a compulsory pilotage area. The applicable amendments to the Atlantic Pilotage Authority regulations were published in 2013, and an objection was submitted. The Authority is awaiting the appointment of an investigator to review the Belledune recommendation. The investigator is expected to be appointed in 2015. An initial review of Newfoundland non-compulsory ports was completed and the result of this review was a PRMM was conducted for Argentia, Long Pond and Conception Bay. The recommendations from these reviews were to leave each port at the status quo, and these findings were presented to the Board in 2014. In late 2014 a PRMM was initiated to examine boarding stations in Placentia Bay, NL, and the facilitator's report and recommendation is expected to be received in 2015.

The Authority and its pilots are keenly interested in ensuring that safety is not compromised when new facilities are built or a change in traffic patterns is noted in a port. On many occasions, ports and industry request the input of the Authority and its pilots during the planning stage of new projects. This advice may involve the positioning of new berths, the feasibility of bringing larger ships to a facility, analysis of required air draft under fixed structures, or the programming of simulators used for marine training. For example, the Authority and the Saint John pilots were consulted with respect to bringing oil tankers to the LNG Terminal while the Monobuoy was out of service for repairs. This allowed the Irving Oil Refinery to continue to receive feedstock in an efficient and economical manner. In Cape Breton, pilots have provided input with respect to the dredging of Sydney Harbour and in the preparation for a prospective new terminal in that port, and in respect to a proposed LNG export terminal in Canso. Halifax pilots, in cooperation with the Halifax Port Authority (HPA) and the Halifax/Dartmouth Bridge Commission, have developed an air gap system using GPS information to ensure the safe navigation of post-Panamax container ships under the harbour bridges. Recently, Halifax pilots and the HPA have reviewed the requirements for container vessels transiting the Narrows in Halifax.

The Authority had no activity to report during the year in regards to section 71 of the *Canadian Environmental Assessment Act, 2012* (CEAA) and federal lands obligations.

Quality of Service

The Authority conducts frequent meetings with stakeholders throughout the region to determine their requirements, report our financial results, discuss operational issues, and exchange information. During 2014, the Authority attended consultation meetings in New Brunswick, Nova Scotia, and Newfoundland and Labrador. Meetings were held for the areas of Saint John, NB; Halifax, NS; Cape Breton, NS; St. John's, NL; and Placentia Bay, NL. Meetings were also held with the Shipping Federation of Canada in Montreal and the Canadian Shipowners Association in Ottawa to discuss the overall APA operation. In total, the Authority held 12 consultation meetings during the year. In addition to these meetings sponsored by the Authority, management and pilot representatives attended many other meetings held by stakeholders throughout the region.

During the year, the Authority held an Annual Public Meeting in St. John's, NL. The Authority gave a presentation of the 2013 financial results and strategic direction to attendees and interested stakeholders.

The Authority continued to make long-term investments to improve the quality of service it provides. Pilots are being added in several districts to address service concerns or prepare for pending retirements. Seven pilots were added in 2014 with plans to add an additional four in 2015. The current goal is to maintain a steady workforce of 48 fully effective pilots, an increase over a low of 42 employed at the beginning of 2014.

Two fast pilot boats were completed in 2007 for service in the Placentia Bay area in Newfoundland. In 2012, the Authority completed the construction of a new pilot boat, the *Chebucto Pilot*, for the port of Halifax. In early 2013, the Authority launched a sister vessel, the *Captain A. G. Soppitt*, to provide service in Saint John, NB. The Authority continues to monitor pilot boat operations in all areas to determine whether improvements can be made.

The Authority is promoting the deployment of weather buoys in several key strategic areas to provide more accurate and timely information on weather and sea conditions for pilots, other mariners, and industry. This initiative has been spearheaded jointly by the Authority and the Canadian Marine Pilots Association, with support from Port Authorities, educational institutions, the Canadian Coast Guard, and private industry. A buoy was launched for Halifax in late 2013 and was communicating information early in 2014. The preparations for a new weather buoy for Saint John, NB were completed in 2014, with the buoy scheduled to become operational in 2015.

Key Service Indicators

The Authority consults with its customers to determine the level of service required in each port. In some ports, the pattern of vessel traffic contains numerous spikes of activity, creating a need for more pilots than the overall average number of assignments may indicate. The Authority determines the staffing levels for each compulsory pilotage area based on the customer requirements and the expected activity in each port. Occasionally, if traffic levels peak too high, delays may be incurred. Staffing for these rare peaks would be too costly for the customers of the port. The Authority works with individual ports to deal with peak periods. For example, during the cruise ship seasons from 2008 through 2011, the Authority hired a retired pilot under a short term contract in Halifax to help cover the peak in traffic during this relatively brief period. In 2014 the Authority added a retired pilot in Eastern Newfoundland for a short period to provide additional coverage in the area while training additional pilots.

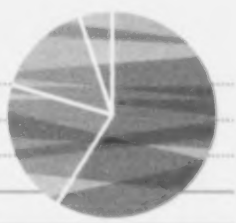
The Authority developed a structured methodology for handling complaints several years ago in response to the Ministerial Review of Outstanding Pilotage Issues. The mechanism is designed to be as user friendly as possible, and the goal of the Authority is to ensure that timely feedback is provided to the complainant. The most common reason for a complaint to be submitted was due to a delay in an assignment. In some cases, the delay is caused by factors beyond the control of the Authority, such as weather or delays caused by the non-availability of port services such as tugs.

The Authority received 71 (84 in 2013) complaints out of a total of 8,472 (8,338 in 2013) assignments during 2014. The remaining 99.2% (99.0% in 2013) of assignments were performed without receiving a complaint from the customer. All complaints received are included in the above total, including those submitted that involved delays not caused by the Authority.

During 2014, 94.7% (94.5% in 2013) of all assignments commenced within one hour of the firm order time. Most of the delays were caused by circumstances outside the control of the Authority, such as a vessel delaying sailing due to cargo, labour, or tug issues. Vessel delays comprised 58.7% of all delays in 2014 (58.3% in 2013). Weather conditions and other issues outside of the Authority's control caused 15.2% of the delays (18.3% in 2013). For the remaining 26.1% of delays (23.4% in 2013), the primary contributing factor was a shortage of pilots or non-availability of pilot boats. The average length of delays was 2.6 hours, with the corresponding time in 2013 being 3.1 hours. The chart below indicates the category of delay for the 5.3% of assignments that were not commenced on time.

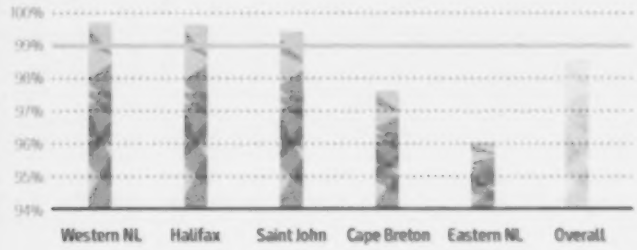
2014 Delayed Assignments by Category

Vessel	266	58.7%
Pilot	95	21.0%
Weather and Other	69	15.2%
Pilot Boat and Other APA	23	5.1%
Total	453	100.0%



The Authority's service benchmark is to provide service within one hour of the ordered time on 99.0% of assignments (excluding delays caused by factors beyond the Authority's control). In 2014, this benchmark was not achieved as 98.6% of assignments were on time (98.7% in 2013). The Authority also applies this benchmark to each individual district or port. During 2014, Eastern Newfoundland at 96.0% (96.1% in 2013) and Cape Breton at 97.6% (97.8% in 2013) did not meet this benchmark. The following chart provides the results for each port or district.

Percentage of Pilotage Assignments without Pilotage Delays 2014



2014 Shipping Incidents

During 2014, there were 5 shipping incidents reported by the Authority's pilots. All incidents are categorized below:

Type of Incident

	2014	2013
Contact with wharf	2	3
Contact with port equipment	1	0
Contact with lock	1	0
Contact with sea bed	1	2
Year end total	**5**	**5**

The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region. The total number of occurrences indicates 99.94% of the 8,472 pilotage assignments were incident free.

Financial Self-Sufficiency

The *Pilotage Act* requires that pilotage tariffs be fixed at a level that permits the Authority to operate on a self-sustaining financial basis, and that the tariffs set be fair and reasonable. To achieve self-sufficiency, tariff adjustments are made based on the financial and operational issues within each port, rather than overall tariff increases that impact all areas. The goal is to have each area become financially self-sufficient to eliminate cross-subsidization among ports. The Authority relies on projections of future traffic levels and the corresponding revenue and expenses to determine the financial health of the individual ports. All aspects of an area's operation are monitored to determine whether cost cutting measures are more appropriate to achieve a positive result before tariff increases are considered.

The Authority amended tariffs for 2014 in eight compulsory pilotage areas: Saint John, NB, Halifax, NS, Strait of Canso, NS, Bras d'Or, NS, Sydney, NS, St. John's, NL, Placentia Bay, NL and for Holyrood, NL. The Authority also put in place a one year surcharge to offset the costs to train a pilot in the ports of Humber Arm, NL, Bay of Exploits, NL, and Stephenville, NL. All other tariffs in the remaining compulsory and non-compulsory pilotage areas remained unchanged.

In recent years there has been significant volatility in activity and revenue in some ports, particularly in Cape Breton where traffic has declined due to activity in the Strait of Canso. In the ports of Halifax and Saint John, the Authority has invested heavily in new pilot boats to meet the demands of customers regarding adequate service levels. Western Newfoundland, which includes Humber Arm and the Bay of Exploits, has had declining activity for several years. The Authority has now begun to add a number of new trainee pilots to address service levels and prepare for future pilot retirements.

The amended tariffs were intended to allow the Authority to remain financially self-sufficient while providing the quality of service requested by the Authority's clients.

Technology

Investment in technology is important to the Authority in order to satisfy its mandate. Technology is used to increase productivity, improve the quality of service, and assure safe pilotage. A technology committee is in place to examine possible uses of technology for the Authority. The committee consists of representatives of both management and pilots.

The Authority continues to install Automatic Identification Systems (AIS) on all of its new pilot boats to provide more accurate and timely information to pilots and boat crews. An electronic source form was implemented that is capable of being transmitted by smartphone, tablet or computer. This initiative replaced paper forms that had to be mailed from the various regions to head office, and allows for more timely and efficient invoicing of trade receivables for the Authority and its customers. Currently, several pilots are testing portable navigational devices to determine if there is a cost effective unit that can be utilized quickly enough to assist in harbor pilotage.

Investment in technology increases productivity, improves the quality of service, and assures safe pilotage.

The Authority endeavours to keep an eligibility list of qualified candidates for pilot positions within the Authority.

Human Resources

Staffing

The Authority endeavours to keep an eligibility list of qualified candidates for pilot positions within the Authority. As mentioned above, the Authority has added seven apprentice pilots during 2014. There were two retirements by year-end. At the end of 2014 the Authority had two candidates on each of the Halifax and Eastern Newfoundland eligibility lists. There was one candidate on the Saint John eligibility list. Early in 2015 the Authority will be adding additional candidates to the Eastern Newfoundland, Cape Breton, and Saint John lists. The Authority added a Chief Operating Officer early in 2014 after a search that had begun late in 2013. This position is similar to the Director of Operations position that had been in place from 1972 to 2011.

The other staffing requirements remained static during the year.

Number of Employees

	2014	2013	2012
Employee pilots	47.0	42.0	45.0
Pilot boat	18.0	18.0	17.0
Officers & Administrative	9.5	8.5	8.5
Dispatch	6.0	6.0	6.0
Total employees	**80.5**	**74.5**	**76.5**
Entrepreneurial pilots	9.0	10.0	10.0

Training

Training is planned by the Authority based on the need for exposure to new technologies, staged training required by new pilots, the need for refresher courses for senior pilots, and new regulatory requirements that may come into force from time to time. The training for the Authority is a progressive program that is determined with the input of pilot representatives from each area. Apprentice and junior pilots learn on the job by being mentored by senior pilots. All pilots attend training courses in manned models or simulators early in their careers. After some further experience they attend a more advanced course. Refresher courses are offered periodically to senior pilots. Other courses, such as Bridge Resource Management, are offered to all pilots as well. In addition, the Authority has worked with industry and the pilots to develop customized courses in such specialized areas as the use of tractor tugs for tanker escort and the characteristics of azipod propulsion systems on cruise ships.

Workplace Safety

The Authority continues to hold frequent Occupational Health and Safety committee meetings and is committed to working in a spirit of consultation with this committee, all employees, and contractors to ensure that a safe and healthy workplace is maintained. The Occupational Health and Safety committee met nine times in 2014, and ten safety issues raised by the committee were resolved by year end.

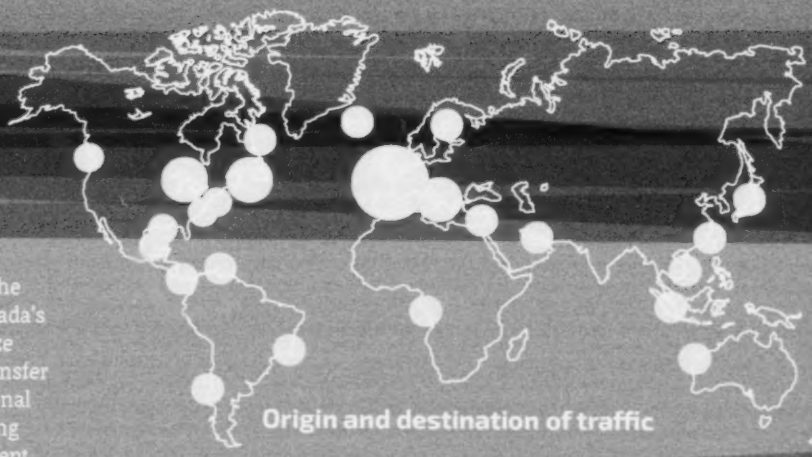
Special Examination

During 2007, the Office of the Auditor General conducted a special examination of the Authority as required by section 138 of the *Financial Administration Act*. The examiners objective was to provide the Authority with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. They concluded that there was reasonable assurance that there were no significant deficiencies in the systems and practices examined. The examiners did point out various opportunities to improve the quality of its systems and practices. Most of the recommendations from the report have been addressed, including establishment of an effective risk management process, improvements in governance, and the licencing of pilots for non-compulsory areas. Improvements have been made to pilot boat security, including cameras, improved security fencing, and alarm systems. The Authority has also implemented a program for pilot evaluations in response to a recommendation from the special examination.

Internal Audit

In 2014 an internal audit was performed that reviewed the pilot-related revenue process, specifically the Electronic Source Form program and related processes. The final results and recommendations from this review were received during the year.

Investing in the future



Origin and destination of traffic

Marine pilots of the Atlantic Pilotage Authority (APA) meet the challenge of navigating ships through some of Atlantic Canada's busiest and most challenging harbours. The APA pilots utilize pilot boats, crewed by a launchmaster and deckhand, to transfer to and from ships. While on board, the pilot takes navigational conduct of the ship to provide safe passage, thereby providing assurance that the ships, crews, cargoes, and the environment are protected.

The APA is the regulator of marine pilotage in the Atlantic region. In order to provide pilotage service to the shipping industry, the APA licences and employs professional pilots who must have a thorough knowledge of the local pilotage area, including port infrastructure, prevailing weather and wind conditions, and sub-surface characteristics of the port. Their knowledge must include the handling characteristics of an ever-increasing variety and type of vessel calling on their port so that they will

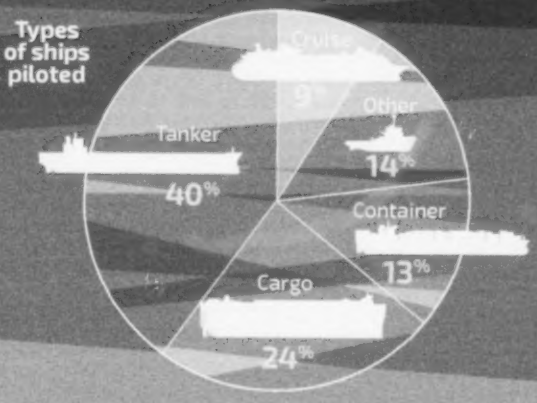
"Seven pilots were added in 2014 with plans to add an additional four in 2015."

be able to accurately judge the effect of wind, current, weather and tidal influences on the ship they are piloting. In addition to the knowledge required, pilots must remain in good physical condition so they can safely transfer between a ship and a pilot boat in adverse sea states and weather conditions.

The value of a pilot is realized when they judge an approach correctly, anticipate accurately and react effectively. The professional abilities of pilots are integrated with navigational systems, both visual and electronic, and the support of information services. Such resources enable the Atlantic Pilotage Authority to provide a safe and efficient service to vessels originating from ports around the world that end up plying the waters of the Atlantic region.

$250,000.00

Average cost to the Authority to train a pilot to an unlimited Class A licence over two to three years.



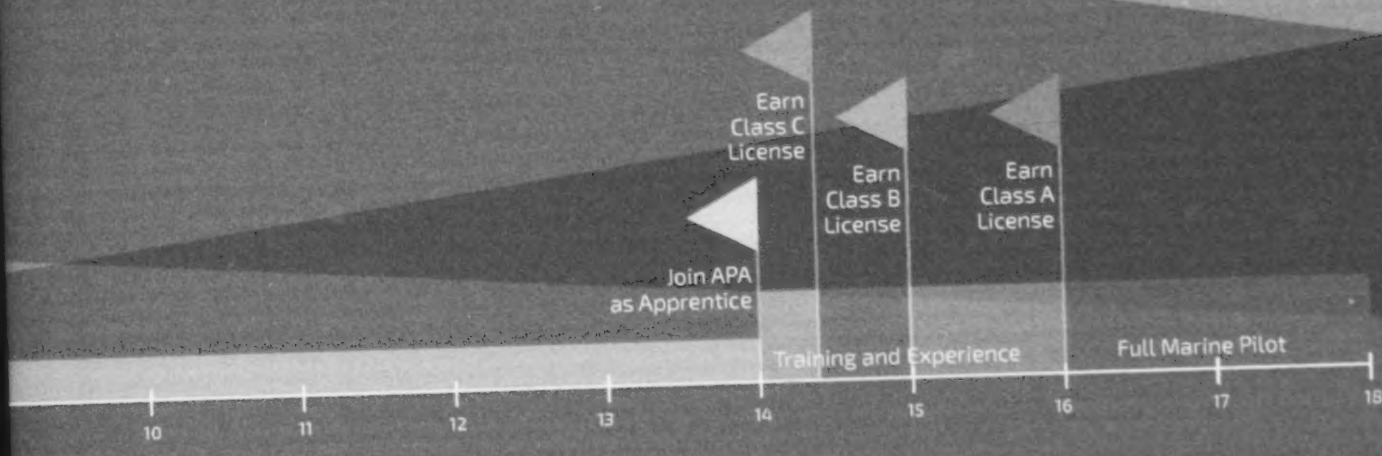
Approximate timeline to become an APA Marine Pilot

"In 2014 the APA had 8 pilots at different stages of training. In 2015 we will have approximately 12 still working toward their Unlimited Class A licence. These pilots will be gaining experience by performing training assignments under the watchful eye of senior pilots."

$315,000.00
Budget in 2015
for training courses.

Becoming a Marine Pilot involves extensive training, but also requires considerable ocean-going experience before even applying for the position. Most applicants applying to become an Apprentice Pilot are seasoned mariners, often with 15 to 20 years of previous training and experience.

Once hired by the APA, the Apprentice will conduct many training assignments on a variety of ships, and to a variety of facilities within the port. In some cases, the Apprentice will complete as many as 130 training assignments with senior pilots before being examined to become a licenced pilot. The first licence (Class C) allows the pilot to take the conduct of ships of up to 10,000 gross tonnes. Over the next two to three years, the pilot will progress through Class B and Class A licences, eventually reaching Unlimited Class A licence. While piloting vessels within their class limitations, a pilot will continue to train on a diverse and larger fleet of vessels until they reach the Unlimited Class A licence. This licence will allow the Pilot to have the conduct on any vessel within their designated port or district. To complement this practical training, the Pilot will undergo extensive simulator and manned model training in both Canada and abroad.



Financial Overview

The Atlantic Pilotage Authority had a significant loss in 2014. Pilotage assignments grew modestly from the previous year and the Authority had revenues that surpassed expectations. However, the costs for the Authority also surpassed budgeted amounts as a number of additional pilots were hired to address service levels and prepare for pending retirements. There was also strain put on the workforce by injury and illness and large one-time costs associated with repairs and replacement of pilot boat equipment.

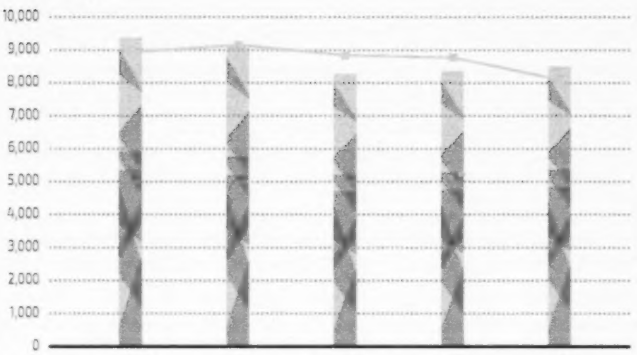
The following discussion regarding the amount of activity in individual ports is referring to pilotage assignments only, and not the level of cargo or vessel traffic experienced by a port. There are several factors that may result in a difference between the activity reported by the Authority and that reported by another body such as a port authority. These factors include ships not subject to compulsory pilotage, ships utilizing mariners who have pilotage certificates, and the amount of cargo carried on a ship. The Authority reports on pilotage assignments performed by its pilots, but does not track the amount of cargo being carried on a vessel.

Budgets are established during the development of the Authority's Corporate Plan based on a forecast of vessel activity for the following year. Management conducts several meetings with stakeholders to discuss service and financial issues, including traffic expectations and tariff requirements. The projections for the coming year are established in late spring and early summer. The Authority was forecasting a decline in activity for 2014, but research vessels in St. John's, NL and Halifax, NS brought additional business in both areas. In Saint John, NB, there were more vessels than budgeted but they were much smaller on average than in previous years.

Budget projections begin with an estimate of the number and type of ships expected to call at Atlantic Canadian ports. Foreign flagged ships make up the majority of the vessels served by the Authority. In 2014, foreign vessels made up 77% of the assignments, and produced 78% of revenues. The Authority had 8,472 pilotage assignments during the year, which was over the budget by 379 assignments or 4.7%. The actual number of assignments increased from 2013 by 134 assignments, a 1.6% increase.

Costs for the Authority surpassed budgeted amounts as additional pilots were hired to address service levels and prepare for pending retirements.

Budgeted and Actual Pilotage Assignments 2010-2014



	2010	2011	2012	2013	2014
Budget	8,964	9,166	8,849	8,755	8,093
Actual	9,338	9,090	8,254	8,338	8,472

Cumulatively, over the past five years, the actual assignments have been 99.2% of the budgeted assignments.

The table below provides a breakdown by major category of the assignments for 2014, with comparisons to the two prior years. Overall, the total number of assignments has been increasing marginally over this period.

Number of Assignments 2012-2014

	2014		2013		2012	
	Assignments	%	Assignments	%	Assignments	%
Tanker	3,413	40%	3,339	40%	3,151	38%
General Cargo Vessel	2,035	24%	1,903	23%	2,073	25%
Other	1,203	14%	1,099	13%	1,105	14%
Container Ship	1,092	13%	1,197	14%	1,178	14%
Cruise Ship	729	9%	800	10%	747	9%
Total	8,472	100%	8,338	100%	8,254	100%

For 2014, tanker assignments increased in Placentia Bay by 9%. General cargo vessel assignments grew in 2014 by 78 assignments in Halifax and by 43 assignments in Saint John. The general cargo vessel category includes bulk, dry, and general cargo, as well as RORO vessels. The "other" category includes a number of smaller sources of business for the Authority such as fishing vessels, oil rigs, supply vessels, research vessels, dredgers, and tugs and barges. The largest segment of this category is with tug and barge assignments, accounting for 33% of activity in 2014 (43% in 2013 and 50% in 2012). The research vessels have increased by 168 assignments over the previous year, split between the ports of Halifax and St. John's. Container ship assignments in Halifax

decreased by 73 assignments from the year prior while cruise ship assignments have declined by 32 assignments in Prince Edward Island and 30 assignments in the port of Saint John.

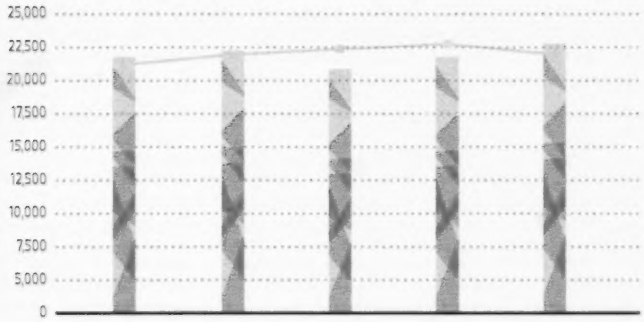
2014 Pilotage Charges by Vessel Type (in thousands of dollars)

Tanker	11,620	51.7%
General Cargo Vessel	4,598	20.5%
Container Ship	2,496	11.1%
Other	2,024	9.0%
Cruise Ship	1,745	7.7%
Total	22,483	100.0%

In 2014, tankers accounted for 52% of our revenues (52% in 2013 and 50% in 2012). A variation in tanker assignments has the largest impact on revenue of all vessel types. These vessels tend to be much larger than average, and therefore attract higher average revenue than other ships. In some ports that rely heavily on tanker activity, such as Saint John, NB, Strait of Canso, NS and Placentia Bay, NL, the pilot requirement is more challenging in terms of the distance, the length of time under the conduct of a pilot, and the requirement to have more robust pilot vessels. As a result, the cost to provide the required service is higher than in other ports. The average revenue per assignment must also be higher to pay for the service in these ports.

The Authority's revenue for 2014 was 3.1%, or $681 thousand, over budget. The following chart indicates the budgeted and actual revenue for each of the last five years. During this period, the cumulative actual revenue has been 98.5% of cumulative budgeted revenue.

Budgeted and Actual Revenue 2010-2014 (in thousands of dollars)



	2010	2011	2012	2013	2014
Budget	20,942	21,961	22,255	22,692	21,882
Actual	21,584	22,039	20,341	21,576	22,562

The Authority provides pilotage service in 17 compulsory ports. These compulsory ports provide 97.6% of the pilotage revenue, with the remaining revenue provided by non-compulsory ports.

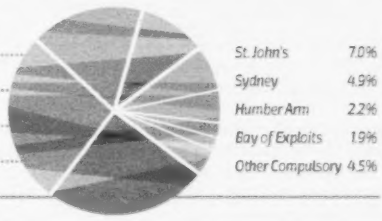
The Authority's revenue for 2014 was 3.1%, or $681 thousand, over budget. Three of the four major areas had revenues that were over budget.

Compulsory Port Revenue

Four major ports provided 79.5% of the revenue from compulsory ports in 2014. The largest revenue contribution came from Placentia Bay at 26.6%. Halifax was the next largest contributor with 25.0%, while Saint John had 17.5%, and Canso 10.4% of the total compulsory revenue. The remaining thirteen compulsory ports provided the residual 20.5% of revenue, with St. John's, NL having the largest share of these ports. The following chart provides a graphic illustration of the revenue contribution of ports.

Percentage of Compulsory Pilotage Revenue by Port 2014

Placentia Bay	26.6%
Halifax	25.0%
Saint John	17.5%
Canso	10.4%
Other	20.5%
Total	100.0%



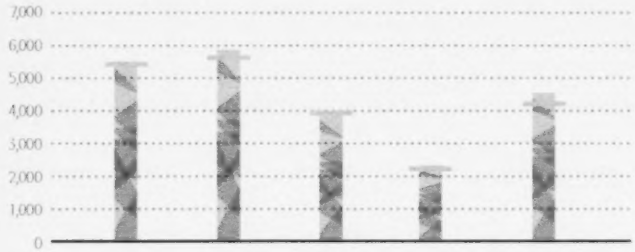
Three of the four major areas had revenues that were over budget. Placentia Bay revenue was 3.9% over budget as the size of tankers visiting the area was larger than anticipated. Strait of Canso revenues were 2.4% over budget. The number of assignments in the area was more than anticipated with an increase in the number of bulk carriers in the strait. Halifax revenue was 1.4% over budget with the increase in research vessel assignments in the area.

Saint John was the only major port that had revenues lower than budget. The area was 2.6% under budget on revenue even though assignments in the port were 6.7% over budget. Vessel size in the port, as measured by pilotage units per trip, fell an average of 11% per vessel in 2014 from the previous year. An increase in activity with less revenue per vessel is a combination that is detrimental to the Authority. The increased activity causes the variable costs to provide the service in the area to increase without the required revenue per assignment necessary to completely cover these expenses.

The training of new pilots is an expensive endeavour which includes their salaries, training courses, and transportation costs.

The chart below illustrates the actual and budgeted revenue in compulsory areas for 2014.

Comparison of Budgeted and Actual Revenue in Compulsory Areas 2014 (in thousands of dollars)



	Halifax	Placentia Bay	Saint John	Canso	Other Compulsory
Budget	5,407	5,628	3,930	2,223	4,181
Actual	5,480	5,845	3,829	2,277	4,512

The total expenses for the Authority were 6.8% over budget. The Authority added seven apprentice pilots in 2014 in an attempt to address service concerns and prepare for pending retirements. This number is more than budgeted as the primary concern is to maintain or improve the quality of service provided to the pilotage customers. The training of new pilots is an expensive endeavour which includes their salaries, training courses, and transportation costs. These related costs will decline over time as they move up in class of licence and the scheduled retirements take place.

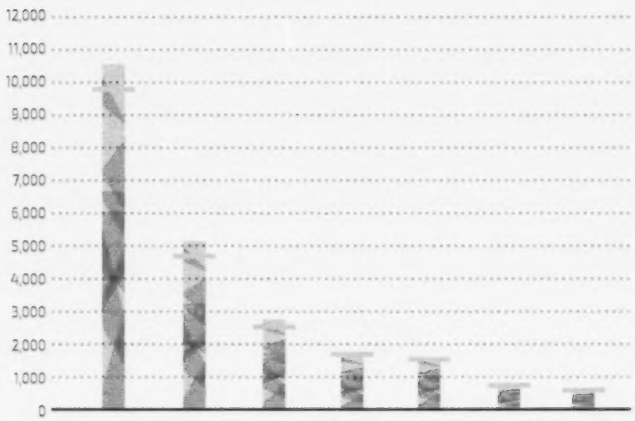
During 2013, the Authority negotiated an agreement with its employee pilots that encourages them to provide a firm retirement date. As a result, the Authority has received notice from seven pilots committing to a firm retirement date, most being two years in advance of retirement. This has allowed the Authority to hire replacement pilots where necessary. While there is a short term cost for this in carrying more salary, in the long term it allows the Authority to have the right number of pilots to provide the service required by its customers.

The Authority had significant repair costs related to failing equipment on the vessels in Placentia Bay. This equipment is being replaced in 2015 and repair costs in the area should decline to normal levels. Increased activity over budget in several ports led to variable pilot boat costs, such as contractor boat service costs and fuel costs, to be higher than anticipated.

Other operating costs were over budget due primarily to the factors mentioned above. This category includes the recognition of an impairment for the equipment being replaced in Placentia Bay. It also includes training costs and advertising costs being over budget due to pilot recruitment.

The following chart indicates the budgeted expenditures against the actual expenditures for 2014, expressed in thousands of dollars.

Comparison of Budgeted and Actual Expenses 2014 (in thousands of dollars)



	Pilot's Salaries, Benefits, and Fees	Pilot Boat Operating Costs	Other Operating Costs	Administration Salaries	Pilot Boat Crewing Costs	Transportation and Travel	Professional and Special Services
Budget	9,791	4,719	2,553	1,586	1,710	750	585
Actual	10,553	5,137	2,746	1,612	1,698	850	584

The Authority budgeted a 0.9% profit margin on expected income of $21.9 million for 2014. Due primarily to the increased costs discussed above, the Authority finished 2014 with a 2.7% loss on $22.6 million of income.

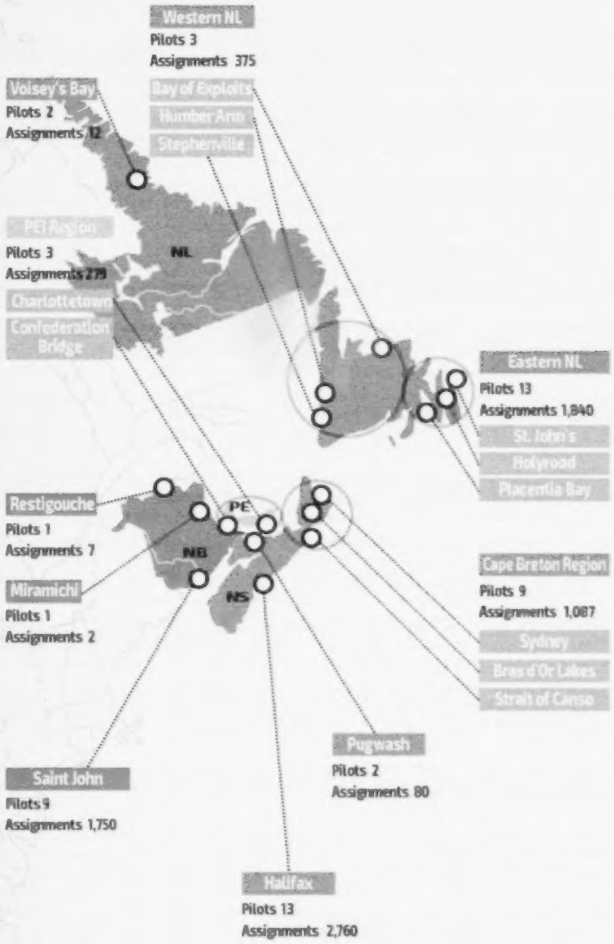
The Authority had a capital budget of $827 thousand for 2014. The actual capital expenditure in 2014 was $637 thousand. This variance was primarily caused by a delay in the replacement of equipment on the Placentia vessels and will be incurred early in 2015. Projects related to wharves and structures were postponed while options regarding the location of pilot boats in Halifax and Placentia Bay are studied.

The capital expenditure budget and actual expenditures for 2014 are indicated in the following chart.

Budgeted and Actual Capital Expenditures, 2014 (in thousands of dollars)

	Budget	Actual
Pilot Boat Refit and Equipment	645	558
Wharves and structures	125	9
Computer equipment and furniture	20	31
Computer software	37	39
Year end total	**827**	**637**

COMPULSORY PILOTAGE AREAS



Operational Area

The *Pilotage Act* has defined the Atlantic Pilotage Authority's area of operation as all the Canadian waters in and around the provinces of New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland and Labrador, as indicated on the map. Within this region, the Authority has designated 17 compulsory pilotage areas.

The Authority has identified other areas in which there is some commercial activity. Pilotage in these areas is not compulsory. The Authority has issued pilot licences for these areas, and will attempt to provide pilotage service subject to availability of pilots and providing there is no impact on the compulsory pilotage service.

Selected Data from Compulsory Areas

Assignments	2014	2013	2012
Newfoundland and Labrador			
Voisey's Bay	12	11	11
Western NL			
Humber Arm	208	193	191
Stephenville	16	9	4
Bay of Exploits	151	125	148
Eastern NL			
St. John's	855	712	448
Holyrood	39	24	23
Placentia Bay	946	869	976
Prince Edward Island			
Charlottetown	215	271	224
Confederation Bridge	64	97	98
New Brunswick			
Saint John	1,750	1,746	1,576
Miramichi	2	13	33
Restigouche	7	9	7
Nova Scotia			
Halifax	2,760	2,686	2,839
Cape Breton Region			
Strait of Canso	711	810	680
Sydney	342	368	350
Bras d'Or	34	57	49
Pugwash	80	60	70
Non-Compulsory Areas	280	278	527
Total	**8,472**	**8,338**	**8,254**

ON THE HORIZON

2015 and Beyond

Pilot Boats

Since 2007, four new pilot boats have been constructed as part of the Authority's pilot boat replacement project. Two of these boats were for Placentia Bay, NL, and one each for Halifax, NS and Saint John, NB. These boats have state of the art technology and safety equipment for the pilot boat crews and pilots. The customers in Placentia Bay, Halifax, and Saint John have been very supportive of this initiative. The Authority will continue its vessel replacement program by building an additional boat for each of Saint John and Halifax. A discovery process has begun to determine the optimal vessels for the next round of construction. The timing of the actual construction will be determined by the financial health of the Authority.

Business Prospects

There are several new developments and proposed developments that promise future business for the Authority. The development of the new potash mine near Sussex will result in increased exports through the port of Saint John. The mine is now operational at about the same level of production as the old mine. It is expected that through the next few years, the production level will increase by approximately 50% to about 1.2 million tonnes per year. The peak production that may be reached is 1.8 million tonnes per year, depending upon market demand. In Saint John, there is also consideration being given to renovations to convert the Repsol LNG terminal to an export facility. This would be a significant undertaking that might provide additional traffic in the future. The proposed Energy East Pipeline project, which proposes to extend the Trans Canada Pipeline to a terminal at Saint John and export oil from that facility, would provide a significant increase in shipping at Saint John.

In Placentia Bay, NL, the nickel processing facility in Long Harbour began operations in 2014, and the regularly scheduled shipping at the facility is expected to commence within the coming year. Also in Placentia Bay, the oil refinery in Come-by-Chance has changed hands, and the new owners are making every effort to increase production and improve efficiency. The transshipment terminal at Whiffen Head expects to receive oil from the Hebron project when it begins producing in late 2017. This will provide a boost in shipping in the following years, and will allow provide a constant supply when output from the Hibernia project tapers off.

The dredging of the harbour in Sydney, NS was completed in early 2012. The deepening of the channel will allow Sydney to attract larger ships, with an expected increase in coal carriers and a long term proposal to build a container terminal in the port. There remains a proposal to build a coal transshipment terminal in Sydney. If it comes to fruition, this would bring a significant increase in traffic for the port.

There are two proposals for LNG export facilities in Nova Scotia. One is at Goldboro on the Eastern Shore, with current plans to be operational by 2019. This terminal is in a non-compulsory pilotage area at present; if it goes ahead, the Authority would determine whether a PRMM study is required to evaluate this status. A second terminal is being proposed at Bear Head in the Strait of Canso. This terminal is located at a site previously being considered for an LNG import facility. Final decisions have not been made, but current plans would have the terminal operational in 2019.

Plans are proceeding for a new container terminal at the Strait of Canso, as lands for the project have been purchased. It is estimated that the terminal could be operational within 26 months of when construction begins. NuStar Energy renewed a long-term contract for storage capacity in the Point Tupper. Pilotage traffic related to the product stored at the facility is influenced greatly by world oil markets and prices. NuStar has suggested that the Energy East Pipeline, currently planned to end in Saint John, be extended to their Canso facility where the oil could be stored and then exported by ship to Europe and Asia.

Many ports are working diligently to build the cruise ship industry in Atlantic Canada. Ports such as Halifax, Saint John, Charlottetown, PE, St. John's, NL, and Sydney continue their marketing efforts to sell the Atlantic area as a cruise destination. The forecast for 2015 is for a modest increase in most ports.

Tariffs

After reviewing the performance of each port, the Authority proposed tariff amendments in 2015 for five compulsory ports. These adjustments are expected to provide an overall increase in revenue of 3.3%. The second stage of tariff amendments passed in 2014 will also take effect in five additional ports at the beginning of 2015. These adjustments are equivalent to a 2.0% overall increase. The seven compulsory areas not included in these regulation changes will be re-examined in 2015 to determine if they also need an adjustment for 2016.

The Authority has reviewed the service requirements of customers in each major port to determine the operational requirements for each one in relation to the number or availability of pilots and pilot boats. The customers have indicated that service is paramount, and they have requested that the workforce be maintained or increased to provide the level of service they require. The APA has taken the requirements of the customers into account in determining its tariff requirements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements have been prepared by the Authority's management in accordance with International Financial Reporting Standards, using management's best estimates and judgments, where appropriate. Management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

Management is also responsible for developing and maintaining a system of internal control which is designed to provide reasonable assurance that assets are safeguarded and controlled, transactions comply with relevant authorities and accounting systems provide timely, accurate financial information.

The Authority's management is responsible for conducting its affairs in compliance with the *Pilotage Act* and regulations, Part X of the *Financial Administration Act* and regulations, and the by laws of the Authority.

The Members of the Authority are responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. These responsibilities are delegated to the Audit Committee. The Audit Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements and annual report are reviewed and approved by the Members of the Authority on the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the transactions and financial statements of the Authority in accordance with Canadian generally accepted auditing standards, and expresses his opinion on the financial statements. He has full and free access to the Audit Committee of the Authority, and his report follows.

R.A. McGuinness
Chief Executive Officer

P. MacArthur, CMA
Chief Financial Officer

Halifax, Canada
March 11, 2015

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of Atlantic Pilotage Authority, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive (loss) income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Atlantic Pilotage Authority as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Atlantic Pilotage Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of Atlantic Pilotage Authority.

Tammy Squires, CA
Principal
for the Auditor General of Canada

11 March 2015
Halifax, Canada

STATEMENT OF FINANCIAL POSITION

Atlantic Pilotage Authority | Administration de Pilotage de l'Atlantique

As at December 31, 2014
(in thousands of Canadian dollars)

	2014	2013
Assets		
Current		
Cash	$ 1,149	$ 1,884
Trade and other receivables (Notes 6 and 7)	3,280	2,977
Prepaid expenses	132	153
	4,561	5,014
Non-current		
Intangible assets (Note 8)	248	265
Pilot boats and equipment (Note 9)	10,394	11,210
	10,642	11,475
	$ 15,203	$ 16,489
Liabilities		
Current		
Trade and other payables (Notes 6 and 7)	$ 1,889	$ 2,237
Bank loans (Notes 7 and 10)	422	400
Employee severance benefits (Note 12)	112	62
	2,423	2,699
Non-current		
Bank loans (Notes 7 and 10)	4,212	4,633
Employee severance benefits (Note 12)	1,426	1,309
	5,638	5,942
	8,061	8,641
Equity		
Retained earnings	7,142	7,848
	7,142	7,848
	$ 15,203	$ 16,489

Commitments (Note 16)

The accompanying notes are an integral part of these financial statements.

Approved by the Members of the Authority and authorized for issue on March 11, 2015:

Member

Member

STATEMENT OF COMPREHENSIVE (LOSS) INCOME

For the year ended December 31, 2014
(in thousands of Canadian dollars)

	2014	2013
Revenues		
Pilotage charges	$ 22,483	$ 21,180
Other income (Note 13)	79	396
	22,562	21,576
Expenses		
Pilots' fees, salaries and benefits	10,553	9,842
Pilot boats, operating costs	5,137	5,101
Pilot boat crews' salaries and benefits	1,698	1,580
Staff salaries and benefits	1,612	1,451
Amortization and depreciation (Notes 8 and 9)	1,417	1,220
Transportation and travel	850	675
Professional and special services	584	616
Utilities, materials and supplies	439	375
Training	320	111
Rentals	285	267
Finance costs	145	124
Communications	140	113
	23,180	21,475
(Loss) profit for the year	(618)	101
Other comprehensive (loss) gain		
Amounts not to be reclassified subsequently to net income:		
Actuarial (loss) gain on employee severance benefits	(88)	91
Other comprehensive (loss) gain	(88)	91
Comprehensive (loss) income	$ (706)	$ 192

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2014
(in thousands of Canadian dollars)

	2014	2013
Retained earnings, beginning of the year	$ 7,848	$ 7,656
(Loss) gain for the year	(618)	101
Other comprehensive (loss) gain	(88)	91
Total comprehensive (loss) income	(706)	192
Retained earnings, end of the year	$ 7,142	$ 7,848

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Atlantic Pilotage Authority | Administration de Pilotage de l'Atlantique

For the year ended December 31, 2014
(in thousands of Canadian dollars)

	2014	2013
Operating Activities		
Receipts from customers	$ 22,242	$ 21,483
Payments to and on behalf of employees	(13,770)	(13,024)
Payments to suppliers	(8,330)	(6,539)
Finance costs paid	(145)	(124)
Other income received	392	83
Net cash provided by operating activities	389	1,879
Investing Activities		
Purchases of intangible assets	(39)	(91)
Purchases of pilot boats and equipment	(686)	(2,070)
Net cash used in investing activities	(725)	(2,161)
Financing Activities		
Proceeds from bank loan	—	2,000
Repayment of bank loans	(399)	(300)
Net cash (used in) provided by financing activities	(399)	1,700
(Decrease) increase in cash	(735)	1,418
Cash, beginning of the year	1,884	466
Cash, end of the year	$ 1,149	$ 1,884

The accompanying notes are an integral part of these financial statements.

December 31, 2014
(in thousands of Canadian dollars)

1. Objectives and Activities

The Atlantic Pilotage Authority (the "Authority") was established in 1972 pursuant to the *Pilotage Act*. The principal registered address of the Authority is 2000 Barrington Street, Halifax, Nova Scotia. The objects of the Authority are to establish, operate, maintain, and administer a safe and efficient pilotage service within designated Canadian waters. The *Pilotage Act* provides that pilotage tariffs shall be fair, reasonable, and sufficient, to permit the Authority to operate on a self sustaining financial basis. Under the Pilotage Act, no payment to the Authority may be made under an appropriation by Parliament to discharge an obligation or liability.

The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*.

2. Regulation of Pilotage Charges

The approval process for setting tariffs for pilotage charges is set out in the *Pilotage Act*. The Authority, with the approval of the Governor in Council, makes regulations prescribing tariffs. The Authority must publish proposed tariffs in the *Canada Gazette* and any interested party who has reason to believe that a proposed tariff is prejudicial to the public interest may file a notice of objection, setting out the grounds therefor, with the Canadian Transportation Agency (CTA) within thirty days following publication of the proposed tariff.

The CTA must investigate the proposed pilotage charge set out in the notice of objection. Once its investigation is complete, the CTA must make a recommendation within 120 days following the receipt of the notice of objection, and the Authority must govern itself accordingly.

The tariffs may come into force 30 days after publication in the Canada Gazette. However, where the CTA recommends a pilotage charge that is lower than that prescribed by the Authority, the Authority is required to reimburse the difference between this charge and the charge recommended by the CTA, with interest, to any person who has paid the prescribed charge. The Governor in Council may vary or rescind a recommendation of the CTA.

3. Significant Accounting Policies

(a) Basis of presentation

These financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS), as issued by the Accounting Standards Board (AcSB).

(b) Financial instruments

Trade and other receivables and trade and other payables, classified as other financial liabilities, are measured at cost. Due to their short-term nature, the cost of these financial instruments approximates their fair value.

Bank loans are classified as other financial liabilities and are initially measured at fair value. After initial recognition, bank loans are measured at amortized cost using the effective interest method.

The Authority is not party to any derivative financial instruments or hedges.

(c) Intangible assets

The Authority's intangible assets are comprised of purchased software. When the software does not form an integral part of the machinery or computer hardware to which it relates, it is separately accounted as an intangible asset. Intangibles are carried at cost less accumulated amortization and impairment losses. Amortization is charged on a straight-line basis over the estimated useful lives of the intangible assets. Estimated useful lives and amortization methods are reviewed at the end of each year.

The useful lives used in the calculation of amortization for purchased software is 5 to 10 years.

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Assets not in use are tested for impairment annually. Any impairment is recognized in comprehensive income and is measured as the amount by which the carrying amount exceeds its recoverable amount.

(d) Pilot boats and equipment

Pilot boats and equipment are recorded at cost. The cost of pilot boats under construction includes design, project management, legal, material, direct labour, and interest on construction loans. Amounts included in pilot boats under construction are transferred to the appropriate pilot boat classifications upon completion, and depreciation commences. Depreciation of pilot boats and equipment is calculated on a straight line basis and is based on the estimated useful life of the assets as follows:

Pilot boat hulls and structures	10 to 25 years
Pilot boat equipment	10 years
Pilot boat generators	5 years
Pilot boat engines	5 to 10 years
Pilot boat inspections	4 to 5 years
Furniture and equipment	2 to 10 years
Leasehold improvements	10 years

Assets are tested for impairment annually. Any impairment is measured as the amount by which the carrying amount exceeds its recoverable amount and is recognized as a loss for the year. Gains or losses arising on the disposal of pilot boats and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss. Gains are recognized within other income, while losses are recognized as a loss for the year in pilot boats, operating costs, or utilities, materials and supplies depending on the assets that were disposed.

(e) Employee severance benefits

Employees are entitled to specified severance benefits as provided for under collective agreements or employment contracts, based on their years of service and final salary. The liability for these payments is estimated and recorded in the accounts as the benefits accrue to the employees.

The costs and the benefit obligation are actuarially determined using the projected unit credit method prorated on service that incorporates management's best estimate of the rate of employee turnover, retirement age, future salary and benefit levels, and other actuarial factors.

Actuarial gains and losses are recognized in the period in which they occur and are included in other comprehensive income.

(f) Pension plan

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan (the "Plan"), a defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority to cover current service cost. Pursuant to legislation currently in place, the Authority has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Authority.

(g) Revenue recognition

Revenues from pilotage charges are recognized when pilotage services are provided.

(h) Accounting standards issued but not yet effective

Accounting standards issued but not yet effective which are expected to be relevant to the Authority include:

IFRS 9, "Financial instruments" (new) issued in November 2009, reissued in October 2010, and then amended in November 2013. IFRS 9 will eventually form a complete replacement for IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 is January 1, 2018. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

IFRS 15, "Revenue from Contracts with Customers" (new) issued in May 2014. IFRS 15 will replace IAS 18 Revenue, IAS 11 Construction Contracts and other revenue related standards. The mandatory effective date of IFRS 15 is January 1, 2017.

The Authority has not early adopted either of these new or amended standards and is currently assessing the impact that these standards will have on the financial statements.

4. Change In Accounting Policy

IFRIC 21, "Accounting for Levies Imposed by Government" effective for annual periods beginning on or after January 1, 2014. The IASB issued an interpretation to clarify that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This interpretation did not have a material impact on the financial statements.

IAS 36, "Impairment of assets" (revised) effective for annual periods beginning on or after January 1, 2014. The narrow-scope amendments clarify that the disclosures about the recoverable amount of impaired assets are only required where the recoverable amount of impaired assets is based on fair value less costs of disposal. This amendment did not have a material effect on the financial statements.

5. Use of Estimates and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal year are discussed as follows.

(a) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next year. Management has made the following critical accounting estimates or assumptions in preparation of these financial statements:

Employee severance benefits

The Authority engaged an external actuary to assess the fair value of its employee severance benefits. The Authority assesses this obligation at December 31 each year.

(b) Critical accounting judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

Amortization and depreciation rates

Refer to Notes 3(c) and 3(d) for the estimated useful lives of pilot boats and equipment and intangible assets.

6. Financial Risk Management

Overview

The Authority has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- interest rate risk

This note presents information about the exposure to each of the above risks, including the Authority's objectives, policies, and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Members of the Authority have overall responsibility for the establishment and oversight of the risk management framework. The Members are responsible for developing and monitoring the Authority's risk management policies.

The Authority's risk management policies are established to identify and analyze the risks faced by the Authority, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems

are reviewed regularly to reflect changes in market conditions and the Authority's activities. The Authority, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Authority. The Audit Committee is assisted in this role by internal audits contracted to external parties. These external parties are contracted to conduct regular reviews of management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Authority if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Authority's receivables from customers.

The carrying amount of cash and trade receivables represents the maximum exposure to credit risk.

There is no significant credit risk with trade receivables as the *Pilotage Act* stipulates that the owner, master, and agent of a ship are jointly and severally liable for pilotage charges, and the *Act* provides a mechanism to withhold customs clearance if pilotage charges are unpaid.

The Authority's trade and other receivables had a carrying value of $3,280 as at December 31, 2014 (2013 – $2,977). The trade receivables had a carrying value of $2,775 as at December 31, 2014 (2013 - $2,522). There is no concentration of trade receivables with any one customer. As at December 31, 2014, approximately 81% (2013 – 78%) of trade receivables, net were current, whereas 19% (2013 – 22%) were greater than 45 days outstanding. Historically, the Authority has not incurred any significant losses with respect to bad debts. The Authority's allowance for doubtful accounts was $10 at December 31, 2014 (2013 – $16). The Authority's other receivables had a carrying value of $505 as at December 31, 2014 (2013 - $455).

Cash is held with a Canadian chartered bank.

Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. The Authority's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risking damage to the Authority's reputation.

The Authority strives to maintain sufficient resources to meet expected operational expenses for a period of 90 days. This includes the servicing of financial obligations, but excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As part of this plan, the Authority maintains an operating credit facility of $1,500 that is unsecured and available at an interest rate not to exceed the prime lending rate.

The Authority's trade and other payables had a carrying value of $1,889 as at December 31, 2014 (2013 – $2,237). The trade payables had a carrying value of $942 as at December 31, 2014 (2013 – $1,535) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of $947 as at December 31, 2014 (2013 – $702).

The Authority has loans with Canadian chartered banks. At December 31, 2014, these bank loans totalled $4,634 (2013 – $5,033).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Authority has limited exposure to interest rate risk as the bank loans have a fixed interest rate which cannot be changed between maturity dates without financial penalty.

7. Fair Value of Financial Instruments

Trade receivables and trade payables are incurred in the normal course of business and are respectively due and payable on demand. The carrying value of these financial instruments approximates fair value because of their short term to maturity.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

No Level 1 or Level 3 financial instruments are held.

The fair value of the bank loans disclosed in Note 10 is a Level 2 fair value measurement.

8. Intangible Assets

The Authority's intangible assets, which consist of purchased software, at December 31 are:

	2014	2013
Cost, beginning of the year	$ 511	$ 420
Additions	39	91
Cost, end of the year	**550**	511
Accumulated amortization, beginning of the year	(246)	(185)
Amortization for the year	(56)	(61)
Accumulated amortization, end of the year	**(302)**	(246)
Carrying amount, end of the year	**$ 248**	$ 265

There is no impairment of intangible assets at December 31, 2014 (2013 – nil).

9. Pilot Boats and Equipment

2014	Pilot boat hulls and structures	Pilot boat equipment	Pilot boat generators	Pilot boat engines	Pilot boat inspections	Pilot boats under construction	Furniture and equipment	Leasehold improvements	Total
Cost, beginning of the year	$ 9,569	$ 3,844	$ 391	$ 2,100	$ 585	$ —	$ 922	$ 174	$ 17,585
Additions	203	248	19	33	—	—	95	—	598
Disposals	(60)	(141)	(20)	—	—	—	(12)	—	(233)
Cost, end of the year	9,712	3,951	390	2,133	585	—	1,005	174	17,950
Accumulated depreciation, beginning of the year	(2,535)	(1,458)	(295)	(1,239)	(160)	—	(525)	(163)	(6,375)
Depreciation of disposals during the year	47	103	20	—	—	—	10	—	180
Depreciation for the year	(408)	(505)	(33)	(195)	(131)	—	(84)	(5)	(1,361)
Accumulated depreciation, end of the year	(2,896)	(1,860)	(308)	(1,434)	(291)	—	(599)	(168)	(7,556)
Carrying amount, end of the year	$ 6,816	$ 2,091	$ 82	$ 699	$ 294	$ —	$ 406	$ 6	$ 10,394

2013	Pilot boat hulls and structures	Pilot boat equipment	Pilot boat generators	Pilot boat engines	Pilot boat inspections	Pilot boats under construction	Furniture and equipment	Leasehold improvements	Total
Cost, beginning of the year	$ 7,647	$ 2,959	$ 354	$ 1,855	$ 313	$ 2,575	$ 816	$ 173	$ 16,692
Additions	460	322	—	36	254	216	140	1	1,429
Transfer from pilot boats under construction	1,627	814	37	209	104	(2,791)	—	—	—
Disposals	(165)	(251)	—	—	(86)	—	(34)	—	(536)
Cost, end of the year	9,569	3,844	391	2,100	585	—	922	174	17,585
Accumulated depreciation, beginning of the year	(2,217)	(1,264)	(259)	(1,050)	(126)	—	(479)	(160)	(5,555)
Depreciation of disposals during the year	66	156	—	—	85	—	33	—	340
Depreciation for the year	(384)	(350)	(36)	(189)	(119)	—	(79)	(3)	(1,160)
Accumulated depreciation, end of the year	(2,535)	(1,458)	(295)	(1,239)	(160)	—	(525)	(163)	(6,375)
Carrying amount, end of the year	$ 7,034	$ 2,386	$ 96	$ 861	$ 425	$ —	$ 397	$ 11	$ 11,210

An impairment of pilot boats and equipment of $132 for December 31, 2014 (2013 – nil) was recognized under amortization and depreciation in the Statement of Comprehensive (Loss) Income. This impairment is due to the planned replacement of damaged or insufficient pilot boat equipment and generators before the previously expected date.

10. Bank Loans

The Authority's outstanding bank loans at December 31 are:

	2014	2013
Non-revolving term facility, payable in monthly instalments including interest at 3.28%, amortized over 10 years, term ending on September 21, 2022, unsecured.	$ 1,803	$ 2,003
Non-revolving term facility, payable in monthly instalments including interest at 2.93%, amortized over 10 years, term ending on January 21, 2023, unsecured.	930	1,030
Non-revolving term facility, payable in monthly instalments including interest at 2.96%, amortized over 15 years, term ending on January 12, 2019, unsecured.	1,901	2,000
	$ 4,634	$ 5,033
Current portion	$ 422	$ 400
Non-current portion	4,212	4,633
	$ 4,634	$ 5,033

Interest expense on loans amounted to $145 ($124). As at December 31, 2014, the fair value of the bank loans is estimated at $4,614 ($4,844).

The estimate is based on the valuation technique of discounting future cash flows. Expected future interest and principal payments are discounted using Level 2 inputs such as current interest rates for similar loans that are available from Canadian Chartered Banks at December 31, 2014, 3.54% (2013 – 4.70%) for loans with a ten year term and 2.81% (2013 – 2.96%) for loans with a five year term.

The remaining minimum principal payments required are:

	2014
2015	$ 422
2016	435
2017	449
2018	463
2019 and beyond	2,865
	$ 4,634

The Authority has an operating credit facility of up to $1,500 available at an interest rate not to exceed the prime lending rate. No amount had been drawn down on the credit facility at December 31, 2014 ($nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

The Minister of Finance has authorized all of the Authority's borrowing.

11. Pension Plan

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan (the "Plan"), a defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at December 31, 2014 was 1.45 to 1 of employee contributions (2013 – 1.64 to 1) to a defined salary threshold for all existing plan members contributing to the public service pension plan on or before December 31, 2012. The general contribution rate effective at December 31, 2014 was 1.43 to 1 of employee contributions (2013 – 1.57 to 1) to a defined salary threshold for all new plan members who joined the public service pension plan on or after January 1, 2013. On the portion of salaries above the defined threshold, the Authority is required to contribute on a ratio of 7.59 to 1 of employee contributions (2013 – 8.00 to 1). Total contributions of $1,045 ($1,081) were recognized as an expense in the current year.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of two percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with the Canada/Québec Pension Plan benefits and are indexed to inflation.

Contributions to the Public Service Pension Plan consisted of:

	2014	2013
Contributions by the Authority	$ 1,045	$ 1,081
Contributions by employees	$ 706	$ 652

12. Employee Severance Benefits

The post-employment severance benefit was provided to all employees under various collective agreements and employment contracts. As of 2012, this benefit is no longer offered to employees recruited by the Authority, but liabilities remain for employees who did not choose to have the benefit curtailed immediately. The severance benefit is measured at its actuarially determined amount. This benefit plan is unfunded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

The projected unit credit method of funding was used for the valuation. Under this method the accrued benefit obligation is equal to the actuarial present value of all future benefits, taking into account the assumptions described below, multiplied by the ratio of an employee's service at the valuation date to total service at the assumed decrement date. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in that period. These costs, along with the interest cost, and experience loss due to settlement are included in the statement of comprehensive income for the year ended December 31, 2014 with $139 ($140) under pilots' fees, salaries and benefits, nil (nil) under staff salaries and benefits, and $2 ($2) under pilot boat crews' salaries and benefits. The cumulative amount of actuarial losses recognized in other comprehensive income is $358 at December 31, 2014 ($270).

Information about the plan, measured at December 31, is as follows:

	2014	2013
Reconciliation of accrued benefit obligation		
Accrued benefit obligation, beginning of the year	$ 1,371	$ 1,445
Current service cost	82	92
Interest cost	59	50
Experience loss due to settlement	—	—
Benefits paid during the year	(62)	(125)
Actuarial losses (gains)	88	(91)
Accrued benefit obligation, end of the year	$ 1,538	$ 1,371
Components of expense recognized in profit and loss		
Current service cost	82	92
Interest cost	59	50
Experience loss due to settlement	—	—
Total expense recognized in profit and loss	$ 141	$ 142
Analysis of actuarial gain or loss		
Change in discount rate	90	(92)
Update from temporary to final CPM mortality tables	1	—
Experience (gain) loss	(3)	1
Actuarial loss (gain)	$ 88	$ (91)
Classification of accrued benefit obligation		
Current portion	$ 112	$ 62
Non-current portion	1,426	1,309
Accrued benefit obligation, end of the year	$ 1,538	$ 1,371
Key assumptions used in the actuarial valuation		
Discount rate	3.50%	4.25%
Estimated salary rate increase	2.75%	2.75%
Age at retirement	33% at age 60, remainder at age 65	

The plan is sensitive to significant actuarial assumptions, the discount rate, the estimate of salary rate increases, and the rate of retirement.

Assumed discount rates have a significant effect on the amounts reported for the accrued benefit obligations. A decrease in the discount rate of 1% would increase the defined benefit obligation at December 31, 2014 by $134. An increase in the discount rate of 1% would decrease the defined benefit obligation at December 31, 2014 by $118.

The assumed salary increase rates also have a significant effect on the amounts reported for the accrued benefit obligation. A 1% increase in this assumption would increase the defined benefit obligation at December 31, 2014 by $134. A 1% decrease would reduce the obligation at December 31, 2014 by $120.

When the retirement age assumption is reduced by one year for all employees, the defined benefit obligation increases by $9 for December 31, 2014.

The weighted average of the maturity of the plan at December 31, 2014 was 8 years (2013 – 8 years). The Authority expects that benefits paid during 2015 will be $112.

13. Insurance Proceeds

The Authority recognized insurance proceeds of $23 for December 31, 2014 ($313 – 2013) as part of other income in the Statement of Comprehensive (Loss) Income. This gain represents the final insurance settlement related to the grounding of a pilot boat that occurred on August 7, 2013.

14. Capital Management

The Authority's capital is its equity, which is comprised of retained earnings. Equity is represented by net assets.

The Authority is subject to financial management and accountability provisions of the *Financial Administration Act* (FAA) which imposes restrictions in relation to borrowings and acquisition of investments. The Authority must obtain approval of all borrowings from the Minister of Finance on an annual basis. The FAA limits investments to bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada. During the years ended December 31, 2014 and December 31, 2013, the Authority has complied with these restrictions.

The Authority manages its equity as a by-product of managing its revenues, expenses, assets, liabilities, and general financial dealings to ensure that its objectives are achieved efficiently. The tariffs of pilotage charges must be fair and reasonable and must enable the Authority to operate on a self-sustaining financial basis, as required by the *Pilotage Act*.

The Authority's objectives when managing capital are:

- to safeguard the Authority's ability to continue as a going concern by having enough capital in reserve to offset possible operating losses, so that it can continue to provide a safe and efficient pilotage service;
- to build an allowance for the cost of constructing or purchasing new pilot boats; and
- to build an allowance for an unfunded liability pertaining mainly to employee severance benefits.

The Authority conducts its business in a manner intended to maintain capital to meet these three requirements. Adjustments to the capital structure are made based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Authority may change its targeted return on pilotage services and tariff structure for a given period, delay possible construction projects, or sell assets to reduce debt. There has been no change to what the Authority defines as capital or its objectives, policies and processes for managing capital from the prior year.

15. Related Party Transactions

(a) Trading transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. The majority of these transactions are not of significance and do not have a material effect on these financial statements.

The Authority entered into a contract with Transport Canada for the provision of regulatory services and expertise. This is a five-year contract from April 1, 2012 to March 31, 2017. Costs incurred for the year were included in the Statement of Comprehensive (Loss) Income for the year ended December 31, 2014 with $108 under professional and special services (2013 - $106). The Authority has outstanding commitments related to this contract of $253 (2013 - $361) (Note 16).

(b) Compensation of key management personnel

The remuneration of Members and key management personnel for the year ended December 31 included:

Executive Management Compensation	2014	2013
Short-term employee benefits, such as wages and salaries	$ 491	$ 346
Pension plan	88	73
	$ 579	$ 419
Board Compensation		
Retainer	$ 18	$ 24
Per diem	44	53
	$ 62	$ 77

(c) Pension plan

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan ("the Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority while the Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan (Note 11).

16. Commitments

The Authority has entered into contracts for pilot boat services and for regulatory services provided by Transport Canada requiring the following minimum payments:

As at	December 31, 2014
Not later than one year	$ 2,203
Later than one year but not later than five years	141
Later than five years	—
	$ 2,344

The Authority has also committed to operating leases for office space, equipment, and wharfage requiring the following minimum payments:

As at	December 31, 2014
Not later than one year	$ 198
Later than one year but not later than five years	379
Later than five years	—
	$ 577

During the year ended December 31, 2014, $285 was recognized in the Statement of Comprehensive (Loss) Income in respect of operating leases (2013 – $267).